LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6406
BILL NUMBER: SB 145

NOTE PREPARED: Jan 13, 2009
BILL AMENDED: Jan 13, 2009

SUBJECT: Taxation of Civil Service Annuities.

FIRST AUTHOR: Sen. Landske
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases the civil service annuity income tax deduction from $2,000 to $10,000 over a seven-year phase-in period. It provides that the deduction is available to a surviving spouse.

Effective Date: January 1, 2010.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the seven-year phase-in from $2,000 to $10,000 income tax deduction for civil service annuities. The DOR's current level of resources should be sufficient to implement the change.

Explanation of State Revenues: *Summary* - The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who receive federal civil service retirement benefits, including surviving spouses. The bill phases in a $10,000 income tax deduction over seven years. The potential revenue losses due to the increase in the deduction are summarized in the table below and are in addition to the revenue losses which are occurring under the current deduction limits.

Tax Year	Fiscal Year	Deduction Amount	Additional Revenue Loss
2010, 2011	2011, 2012	First $4,000	$180,000 - $189,000
2012, 2013	2013, 2014	First $6,000	$332,000 - $349,000
2014, 2015	2015, 2016	First $8,000	$460,000 - $482,000
2016	2017	First $10,000	$589,000 - $594,000

The fiscal impact of the deduction increase would begin in FY 2011. If recent trends persist, the annual revenue loss after the phase-in is complete could potentially decline by about 3% to 4% annually. The impact of extending the deduction to a surviving spouse could potentially increase the revenue loss from the bill, but the extent of the impact is unknown.

Background Information - Under current statute, taxpayers may deduct up to $2,000 in civil service annuity income. The deduction is equal to the difference between $2,000 and the total amount of Social Security and railroad benefits received by the taxpayer. Based on the current deduction limits, revenue loss for FY 2010 is estimated to be approximately $195,000. Data from the U.S. Office of Personnel Management indicates that there were about 26,400 federal retirees and about 8,800 surviving spouses of federal retirees residing in Indiana in 2007. On average, that number has increased 0.4% over the past 10 years. These individuals received approximately $782 M in civil service annuity payments during 2007, with the average annuity to retirees equal to about $25,000. The average survivor's benefit was about $13,600. The total payments to retirees and their spouses in Indiana increased, on average, 4% over the past 10 years.

The bill increases the deduction beginning in tax year 2010, thus, the fiscal impact of the phase-in will commence in FY 2011. Revenue collected from the AGI tax on individuals is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the civil service retirement deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Ed Callicott, Center for Budget and Performance, Federal Office of Personnel Management, 202-606-1268; Danny Cieslicki, Center for Budget and Performance, Federal Office of Personnel Management, 202-606-0067.

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